

**REPORT OF THE AUDIT OF THE
PERRY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PERRY COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Perry County Fiscal Court for fiscal year ended June 30, 2004. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Perry County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Perry County's major federal program: Federal Emergency Management Assistance Grant (CFDA #83.544).

Financial Condition:

The fiscal court had net assets of \$9,746,527 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,292,751 in its governmental funds as of June 30, 2004, with total net assets of \$9,712,053. In its enterprise fund, total net cash and cash equivalents were \$34,474 with total net assets of \$34,474. The fiscal court had total debt principal as of June 30, 2004 of \$15,594,205 with \$563,350 due within the next year.

Report Comments:

- All Interfund Transfers Should Be Properly Recorded As Transfers In/Out
- The County Should Maintain Timesheets For All Employees

Deposits:

As of June 30, 2004, the fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Denny Ray Noble, Perry County Judge/Executive
Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Perry County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Perry County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Perry County, Kentucky's basic financial statements. The accompanying supplementary information, combining and individual fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2005, on our consideration of Perry County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- All Interfund Transfers Should Be Properly Recorded As Transfers In/Out
- The County Should Maintain Timesheets For All Employees

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 14, 2005

PERRY COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Denny Ray Noble	County Judge/Executive
Earl Bailey	Magistrate
Jimmy D. Neace	Magistrate
Johnny Blair	Magistrate

Other Elected Officials:

John Carl Shackelford	County Attorney
McClee Feltner	Jailer
Haven King	County Clerk
Roger Collins	Circuit Court Clerk
Pat Wooten	Sheriff
John Frank Gross	Property Valuation Administrator
Jimmy Maggard	Coroner

Appointed Personnel:

Tonya Delph	County Treasurer
Joyce Napier	Finance Officer

Office of the County Judge – Executive

Denny Ray Noble



P.O. Drawer 210
HAZARD, KENTUCKY 41701
(606) 436-4513

Management's Discussion and Analysis June 30, 2004

The financial management of Perry County, Kentucky offers readers of Perry County's financial statements this narrative overview and analysis of the financial activities of Perry County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Perry County has net capital assets of \$17,538,490 as of June 30, 2004. The fiscal court had unrestricted net assets of \$723,610 in its governmental activities as of June 30, 2004. In its business-type activities, cash and cash equivalents were \$34,474 with total assets of \$34,474. Total debt principal as of June 30, 2004 was \$15,594,205 with \$563,350 due within one year.
- At the close of the current fiscal year, Perry County's governmental funds balance sheet reported a fund balance of \$1,630,654. Of this amount, \$1,536,405 is available for spending (unreserved fund balance).
- Perry County's total indebtedness at the close of fiscal year June 30, 2004 was \$15,594,205, of which \$15,030,855 is long-term debt (due after one year). There were no debt additions and debt reductions totaled \$1,000,200.
- In October 2003, Perry County Fiscal Court was awarded a grant in the amount of \$100,000 from Governors Office For Local Development. This grant was used for Joshua Dream Foundation in the amount of \$100,000 to upgrade water plant and maintenance, facility maintenance, operational expenses and residential supplies.
- Perry County received a total of \$448,000 in July, 2003 from the Governors Office for Local Development. This Grant was expended in the amount of \$448,000 in August, 2003 to retire black top bonds.
- Perry County has received from the Kentucky Department of Military Affairs-Homeland Security funding for Perry County Sheriff office for communication upgrade. Perry County received grant in the amount of \$26,451 and expended \$26,451.
- Perry County received a total of \$1,456,763 through CDBG funds and Coal Severance Tax. These funds were expended in the amount of \$1,456,763 for water projects through-out Perry County. The water projects served approximately 1,050 Perry County homes.

Financial Highlights (Continued)

- Perry County received \$190,313 from Eastern Kentucky Pride Grant to be used for dump clean up. The amount expended was for dump clean up in the amount of \$190,313.
- Perry County received a grant in February 2004 in the amount of \$14,773 to be matched by Perry County Fiscal Court to purchase a vehicle for Emergency Management use. The vehicle was purchased in December 2003 in the amount of \$29,711.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Perry County's basic financial statements. Perry County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of Perry County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Perry County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Perry County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues, and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of Perry County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and

Government-wide Financial Statements (Continued)

charges (business-type activities). Perry County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. Perry County has one business-type activity - the operation of a jail canteen.

The government-wide financial statements include not only Perry County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with Perry County. Perry County has one such entity, the Public Properties Corporation. It is known as a blended component unit.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Perry County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Perry County can be divided into three broad categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Perry County maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, LGEA Fund, Coal Severance Projects Fund, Justice Center Corporation Fund, and Public Properties Corporation Bond Fund, all of which are considered major funds by Perry County. E-911 Fund, KREDA Fund, ADF Fund, FEMA Fund, Perry County Emergency Planning Committee Fee Account Fund, Buckhorn Waterline Fund, Forestry Fund, and CDBG Fund are considered non-major funds and are represented in a combined form.

Perry County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Perry County
Management's Discussion and Analysis
June 30, 2004
(Continued)

Fiduciary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The County's only fiduciary fund is the Jail Inmate fund, an agency fund. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis.

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Perry County's Net Assets

	Governmental Activities	Business-Type Activities	Totals
Assets			
Current Assets	\$ 1,630,654	\$ 34,474	\$ 1,665,128
Capital Assets	17,538,490		17,538,490
Total Assets	\$ 19,169,144	\$ 34,474	\$ 19,203,618
Liabilities			
Long-term Debt	\$ 15,594,205		\$ 15,594,205
Total Liabilities	\$ 15,594,205	\$ 0	\$ 15,594,205
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 1,944,285	\$	\$ 1,944,285
Restricted	907,044	34,474	941,518
Unrestricted	723,610		723,610
Total Net Assets	\$ 3,574,939	\$ 34,474	\$ 3,609,413

Financial Analysis of Perry County's Funds.

As noted earlier, Perry County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Perry County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Perry County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2004 fiscal year, the combined ending fund balance of Perry County governmental funds was \$1,630,654. Approximately 94% (\$1,536,405) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$94,249) is reserved to indicate that it is not available for new spending because it is committed.

Perry County has 7 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) Jail Fund; 4) LGEA Bond Fund, 5) Coal Severance Projects Fund, 6) Justice Center Corporation Fund, and 7) Public Properties Corporation Bond Fund. There are 8 non-major funds. They are the E-911 Fund, KREDA Fund, Area Development Fund, FEMA Fund, Perry County Emergency Planning Committee Fee Account Fund, Buckhorn Water Line Fund, Forestry Fund, and CDBG Fund.

1. The General Fund is the chief operating fund of Perry County. At the end of June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$181,651, while total fund balance was \$189,331. The county received \$1,395,196 in real and personal property, motor vehicle, and other taxes for approximately 60% of the county's general fund revenues. Various other service fees, and miscellaneous revenues make up the remaining 40% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$184,514 in fund balance at June 30, 2004. The fund balance at the end of the previous year was \$86,226. The fiscal year 2004 expenditures for road projects were \$1,336,913.
3. The Jail Fund is used to account for the operation of Perry County's detention program. The Jail Fund had a fund balance at June 30, 2004 of \$45,321. The Jail Fund received \$558,821 for intergovernmental fees, primarily for housing prisoners. The General Fund contributed \$230,000 to the jail operations.
4. The Local Government Economic Assistance Fund has a fund balance of \$160,700, and that is an increase of \$72,061 over the previous fiscal year end.
5. The E-911 fund is used to account for the operation of Perry County E-911 System. The E-911 Fund had \$22,776 in fund balance on June 30, 2004. The fund balance at the end of the previous fiscal year was \$31,207.

Financial Analysis of Perry County's Funds. (Continued)

6. The Forestry Fund is used to account for funds received from fire protection. The county received \$3547 in tax receipts. The Fund balance as of June 30, 2004 was \$6,872 and increase of \$49.
7. The KREDA Fund had a balance at June 30, 2004 of \$21,826. The amount of funds are reserved for bond payment of the Cintas building only.
8. The Perry County Coal Severance Fund was restricted for Perry County Water Lines. The county received a grant for \$2,283,900 and interest of \$1,388. The County expended \$1,757,643 during the fiscal year. The fund balance as of June 30, 2004 was 85,866
9. The Perry County Public Properties Corporation fund has funds left over from bonds. There was a prior year carryover of \$17,217. There was no activity in this fund during the Fiscal Year.
10. The CDBG Fund was restricted to Perry County Water Lines. The funds received \$22,500 in federal funds from the Governor Office for Local Development and expended \$22,500.
11. The Buckhorn Water Line Fund is money that has been receipted from citizens of Buckhorn for water lines. There was a prior year carryover of \$1,450. There was no activity in this fund during the Fiscal Year.
12. The Area Development Fund is used to match grants that are received through Kentucky River Area Development District. This fund has a balance of \$32 from a prior year carry over. There was no activity in this fund during the Fiscal Year.
13. The Perry County Retirement Revolving Fund is a clearing account for retirement benefits. The revenue is derived from the funds, sheriff, and clerk. The county, in turn, expends the employee and county contribution.
14. The FEMA Fund from federal grants for disasters. There is a balance of \$1,531 from prior year carryover. There was no activity in this fund during the Fiscal Year.
15. The Perry County Emergency Fund are funds from Federal Grants to be used for Emergency management office equipment to support hazardous areas in Perry County. There is a fund balance of \$3,384, these funds are from prior year carryover. There was no activity in this fund during the Fiscal Year.

Proprietary Funds Overview. Perry County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

Perry County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had a cash balance of \$34,474 as of June 30, 2004.

Perry County
 Management's Discussion and Analysis
 June 30, 2004
 (Continued)

General Fund Budgetary Highlights.

Perry County's original budget was amended during the fiscal year increasing the operating budget by \$313,319. Budget amendments were made to all areas due to state and federal grants, surplus carried forward, and increase in several accounts as opposed to projected collections.

Actual operating revenues were \$37,093 more than amount originally budgeted by Fiscal Court. This increase was primarily from Intergovernmental sources and tax revenues.

Actual operating expenditures were \$51,541 less than the amount originally budgeted by Fiscal Court.

Capital Assets and Debt Administration

Capital Assets. Perry County's investment in capital assets for its government and business type activities as of June 30, 2004, amounts to \$ 17,538,490, net of depreciation. This investment in capital assets includes construction in progress, land, building, improvements to land other than buildings, machinery and equipment, vehicles and infrastructure. Perry County has elected to report infrastructure assets prospectively beginning with the 2004 fiscal year as allowed per GASB 34 provisions.

Major capital asset events during the 2004 fiscal year included the demolition of the rescue building, the purchase of a new ambulance and backhoe. Additional information on Perry County's capital assets can be found in Note 3 of this report.

Table 2
Perry County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities	
	2003	2004
Infrastructure	\$	\$ 109,364
Land	2,730,802	2,730,802
Construction in Progress	3,849,614	6,320,551
Buildings and Improvements	7,609,607	7,427,251
Vehicles and Equipment	707,595	950,522
Total Net Capital Assets	<u>\$ 14,897,618</u>	<u>\$ 17,538,490</u>

Capital Assets and Debt Administration. (Continued)

Long-Term Debt. At the end of the 2004 fiscal year, Perry County had total long-term debt outstanding of \$15,594,205. The amount of this debt due within the next year is \$563,350 and \$15,030,855 is due in subsequent years. This debt is for the detention center, the Justice Center, abuse shelter, fire equipment, airport, road lease phase II, ambulance, 1999 series blacktop bond, and truck payment for road fund. This debt is described in Note 5 of the notes to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of Perry County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Perry County Treasurer, (Tonya Delph, PO Drawer 210 Hazard, KY 41702.)

PERRY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

PERRY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,630,654	\$ 364,768	\$ 1,995,422
Notes Receivable Due Within One Year	569,141		569,141
Total Current Assets	2,199,795	364,768	2,564,563
Noncurrent Assets:			
Notes Receivable Due In More Than One Year	5,567,973		5,567,973
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	6,320,551		6,320,551
Land and Land Improvements	2,730,802		2,730,802
Buildings	7,427,251		7,427,251
Vehicles and Equipment	950,522		950,522
Infrastructure Assets - Net of Depreciation	109,364		109,364
Total Noncurrent Assets	23,106,463		23,106,463
Total Assets	25,306,258	364,768	25,671,026
LIABILITIES			
Current Liabilities:			
Due Within One Year	\$ 563,350	\$	\$ 563,350
Noncurrent Liabilities:			
Due In More Than One Year	15,030,855		15,030,855
Total Liabilities	15,594,205		15,594,205
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 7,512,258	\$	\$ 7,512,258
Restricted For:			
Capital Projects	743,660		743,660
Debt Service	163,384		163,384
Jail Canteen		34,474	34,474
Unrestricted	1,292,751		1,292,751
Total Net Assets	\$ 9,712,053	\$ 34,474	\$ 9,746,527

The accompanying notes are an integral part of the financial statements.

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PERRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
June 30, 2004

PERRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

June 30, 2004

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,820,030	\$ 845,225	\$ 1,367,121	\$ 2,283,900
Protection to Persons and Property	1,640,265	5,938	629,173	
General Health and Sanitation	1,864,683			
Social Services	75,722		113,564	
Recreation and Culture	106,456	22,275		
Roads	1,605,832		2,723,145	
Interest on Long-Term Debt	623,095			
Capital Projects	30,559		22,500	
Total Governmental Activities	\$ 8,766,642	\$ 873,438	\$ 4,855,503	\$ 2,283,900
Business-type Activities:				
Jail Canteen Fund	\$ 165,147	\$ 182,521	\$	\$
Total Business-type Activities	165,147	182,521		
Total Primary Government	\$ 8,931,789	\$ 1,055,959	\$ 4,855,503	\$ 2,283,900

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Principal on Receivable Forgiven

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ 1,676,216	\$	\$ 1,676,216
(1,005,154)		(1,005,154)
(1,864,683)		(1,864,683)
37,842		37,842
(84,181)		(84,181)
1,117,313		1,117,313
(623,095)		(623,095)
(8,059)		(8,059)
<u>\$ (753,801)</u>	<u>\$ 0</u>	<u>\$ (753,801)</u>
<u>\$</u>	<u>\$ 17,374</u>	<u>\$ 17,374</u>
	<u>17,374</u>	<u>17,374</u>
<u>\$ (753,801)</u>	<u>\$ 17,374</u>	<u>\$ (736,427)</u>
792,784		792,784
98,878		98,878
204,708		204,708
575,783		575,783
75,627		75,627
514,686		514,686
6,137,114		6,137,114
10,121		10,121
<u>8,409,701</u>		<u>8,409,701</u>
<u>7,655,900</u>	<u>17,374</u>	<u>7,673,274</u>
<u>2,056,153</u>	<u>17,100</u>	<u>2,073,253</u>
<u>\$ 9,712,053</u>	<u>\$ 34,474</u>	<u>\$ 9,746,527</u>

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PERRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

PERRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Bond Fund</u>	<u>Coal Severance Projects Fund</u>
ASSETS					
Cash and Cash Equivalents	\$ 189,331	\$ 184,514	\$ 45,321	\$ 160,700	\$ 85,866
Investments					
Total Assets	<u>\$ 189,331</u>	<u>\$ 184,514</u>	<u>\$ 45,321</u>	<u>\$ 160,700</u>	<u>\$ 85,866</u>
FUND BALANCES					
Fund Balances:					
Reserved for:					
Encumbrances	\$ 7,680	\$ 64,172	\$ 19,017	\$ 2,577	\$
Unreserved:					
General Fund	181,651	120,342	26,304	158,123	85,866
Special Revenue Fund					
Capital Projects Fund					
Debt Service Fund					
Total Fund Balances	<u>\$ 189,331</u>	<u>\$ 184,514</u>	<u>\$ 45,321</u>	<u>\$ 160,700</u>	<u>\$ 85,866</u>
Total Liabilities and Fund Balances	<u>\$ 189,331</u>	<u>\$ 184,514</u>	<u>\$ 45,321</u>	<u>\$ 160,700</u>	<u>\$ 85,866</u>

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Justice Center Corporation Fund	Public Properties Corporation Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 57,878	\$ 723,610
743,660	163,384		907,044
<u>\$ 743,660</u>	<u>\$ 163,384</u>	<u>\$ 57,878</u>	<u>\$ 1,630,654</u>

\$	\$	\$ 803	\$ 94,249
			572,286
		57,075	57,075
<u>743,660</u>	<u>163,384</u>		<u>907,044</u>
<u>\$ 743,660</u>	<u>\$ 163,384</u>	<u>\$ 57,878</u>	<u>\$ 1,630,654</u>
<u>\$ 743,660</u>	<u>\$ 163,384</u>	<u>\$ 57,878</u>	<u>\$ 1,630,654</u>

**Reconciliation of the Balance Sheet - Governmental
Funds to the Statement of Net Assets**

Total Fund Balances	\$ 1,630,654
Principal on Receivable Forgiven	6,137,114
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds	19,369,396
Accumulated Depreciation	(1,830,906)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(3,749,205)
Bonded Debt	<u>(11,845,000)</u>
Net Assets Of Governmental Activities	<u>\$ 9,712,053</u>

The accompanying notes are an integral part of the financial statements.

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PERRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

PERRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>
REVENUES				
Taxes	\$ 1,395,196	\$	\$	\$
In Lieu Tax Payments		2,172		
Excess Fees	75,627			
Licenses and Permits	257,170			62,727
Intergovernmental	268,776	1,646,315	558,821	2,178,602
Charges for Services	40,311			
Miscellaneous	291,389	28,513	68,606	143,293
Interest	1,440	1,776	418	1,117
Total Revenues	<u>\$ 2,329,909</u>	<u>\$ 1,678,776</u>	<u>\$ 627,845</u>	<u>\$ 2,385,739</u>
EXPENDITURES				
General Government	\$ 1,185,757	\$	\$	\$ 13,000
Protection to Persons and Property	10,800		1,121,049	145,231
General Health and Sanitation	17,391			295,529
Social Services	45,536			30,186
Recreation and Culture				94,139
Roads		1,336,913		601,104
Debt Service		48,529		67,957
Capital Projects				18,101
Administration	780,220	95,022	109,922	286,840
Total Expenditures	<u>\$ 2,039,704</u>	<u>\$ 1,480,464</u>	<u>\$ 1,230,971</u>	<u>\$ 1,552,087</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 290,205</u>	<u>\$ 198,312</u>	<u>\$ (603,126)</u>	<u>\$ 833,652</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	150,024		991,591	50,000
Transfers To Other Funds	(304,450)	(100,024)	(418,746)	(811,591)
Total Other Financing Sources (Uses)	<u>\$ (154,426)</u>	<u>\$ (100,024)</u>	<u>\$ 572,845</u>	<u>\$ (761,591)</u>
Net Change in Fund Balances	\$ 135,779	\$ 98,288	\$ (30,281)	\$ 72,061
Fund Balances - Beginning	53,552	86,226	75,602	88,639
Fund Balances - Ending	<u>\$ 189,331</u>	<u>\$ 184,514</u>	<u>\$ 45,321</u>	<u>\$ 160,700</u>

The accompanying notes are an integral part of the financial statements.

PERRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Coal Severance Projects Fund	Justice Center Corporation Fund	Public Properties Corporation Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$ 276,775	\$ 1,671,971
				2,172
				75,627
			1,433	321,330
2,283,900	482,701		93,629	7,512,744
				40,311
	5,612		113,737	651,150
1,388	2,622	886	476	10,123
<u>\$ 2,285,288</u>	<u>\$ 490,935</u>	<u>\$ 886</u>	<u>\$ 486,050</u>	<u>\$ 10,285,428</u>
\$ 208,378	\$	\$		\$ 1,407,135
			318,416	1,595,496
1,529,263			22,500	1,864,683
				75,722
				94,139
				1,938,017
20,002	487,085	840,359	159,363	1,623,295
	2,470,937		12,458	2,501,496
			35,727	1,307,731
<u>\$ 1,757,643</u>	<u>\$ 2,958,022</u>	<u>\$ 840,359</u>	<u>\$ 548,464</u>	<u>\$ 12,407,714</u>
<u>\$ 527,645</u>	<u>\$ (2,467,087)</u>	<u>\$ (839,473)</u>	<u>\$ (62,414)</u>	<u>\$ (2,122,286)</u>
	33,000	840,277	24,450	2,089,342
(454,531)				(2,089,342)
<u>\$ (454,531)</u>	<u>\$ 33,000</u>	<u>\$ 840,277</u>	<u>\$ 24,450</u>	<u>\$</u>
\$ 73,114	\$ (2,434,087)	\$ 804	\$ (37,964)	\$ (2,122,286)
12,752	3,177,747	162,580	95,842	3,752,940
<u>\$ 85,866</u>	<u>\$ 743,660</u>	<u>\$ 163,384</u>	<u>\$ 57,878</u>	<u>\$ 1,630,654</u>

The accompanying notes are an integral part of the financial statements.

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**PERRY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

June 30, 2004

PERRY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (2,122,286)
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	2,982,026
Depreciation Expense	(261,154)
Capital Asset Disposal	(80,000)
Principal on Receivable Forgiven	6,137,114
Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.	
Financing Obligations	225,200
Bond Payments	<u>775,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 7,655,900</u></u>
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PERRY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

PERRY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 34,474
Total Current Assets	<u>34,474</u>
Total Noncurrent Assets	<u> </u>
Total Assets	<u>34,474</u>
Net Assets	
Restricted	34,474
Total Net Assets	<u><u>\$ 34,474</u></u>

The accompanying notes are an integral part of the financial statements.

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PERRY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

PERRY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 182,405
Total Operating Revenues	<u>182,405</u>
Operating Expenses	
Cost of Sales	<u>165,147</u>
Total Operating Expenses	<u>165,147</u>
Operating Income (Loss)	<u>17,258</u>
Nonoperating Revenues (Expenses)	
Interest Income	<u>116</u>
Total Nonoperating Revenues	<u>116</u>
Change In Net Assets	17,374
Total Net Assets - Beginning	<u>17,100</u>
Total Net Assets - Ending	<u><u>\$ 34,474</u></u>

The accompanying notes are an integral part of the financial statements.

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PERRY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

PERRY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 182,405
Cost of Sales	<u>165,147</u>
Net Cash Provided By Operating Activities	<u>347,552</u>
Cash Flows From Investing Activities	
Interest Earned	<u>116</u>
Net Cash Provided By Investing Activities	<u>116</u>
Net Increase (Decrease) in Cash and Cash Equivalents	347,668
Cash and Cash Equivalents - July 1	<u>17,100</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 364,768</u></u>
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
 Operating Income (Loss)	 <u>\$ 17,258</u>
Total Cash Provided By Operating Activities	 <u><u>\$ 17,258</u></u>

The accompanying notes are an integral part of the financial statements.

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PERRY COUNTY
STATEMENT OF FUND NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS

June 30, 2004

PERRY COUNTY
STATEMENT OF FUND NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS

June 30, 2004

	<u>Agency Fund</u>
	Jail Inmate Fund
	<u></u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 2,556</u>
Total Assets	<u> 2,556</u>
Liabilities	
Amounts Held In Custody For Others	<u> 2,556</u>
Total Liabilities	<u><u>\$ 2,556</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Perry County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

Perry County Justice Center Corporation

The Perry County Fiscal Court appoints a voting majority of the Justice Center Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Justice Center Corporation. Financial information for the Justice Center Corporation is blended within the Perry County's financial statements. All activities of the Justice Center Corporation are accounted for as a major fund of the primary government.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Perry County Public Properties Corporation

The Perry County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Justice Center Corporation. Financial information for the Public Properties Corporation is blended within the Perry County's financial statements. All activities of the Public Properties Corporation are accounted for as a major fund of the primary government.

C. Perry County Constitutional Elected Officials Not Part Of Perry County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Perry County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major funds. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, and expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Perry County Coal Severance Projects Fund - The purpose of this fund is to account for monies used to build water lines throughout Perry County. The source of revenue for this fund is from a state tax on coal removal. The Governor's Office for Local Development requires the fiscal court to report and budget these funds.

Justice Center Corporation Fund - The Justice Center Corporation Fund accounts for the activities of the Justice Center Corporation, a blended component unit of the county. The Justice Center Corporation issued debt to build a Justice Center facility. The Justice Center Corporation has entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

Public Properties Corporation Bond Fund - The Public Properties Corporation Bond Fund accounts for the activities of the Public Properties Corporation, a blended component unit of the county. The Public Properties Corporation issued debt to build a detention center. The Public Properties Corporation entered into a contract, lease, and option with the County. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Emergency - 911 Fund, Forestry Fund, KREDA Fund, FEMA Fund, Area Development Fund, Perry County Emergency Planning Committee Fee Account Fund, Buckhorn Water Line Fund, and the CDBG Fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale on April 30 following the delinquency date.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Emergency - 911 Fund, Forestry Fund, KREDA Fund, FEMA Fund, Area Development Fund, Perry County Emergency Planning Committee Fee Account Fund, Buckhorn Water Line Fund, and the CDBG Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Justice Center Corporation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Public Properties Corporation Bond Fund is presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from inmates after incarceration.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Only infrastructure assets placed in service on or after July 1, 2003, have been reported, as allowed by provisions of GASB 34.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	5-15
Office Furniture and Equipment	\$ 500	3-5
Vehicles	\$ 5,000	5-7
Infrastructure	\$ 20,000	2-5

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Ending Balance
Primary Government:			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 2,730,802	\$	\$ 2,730,802
Construction In Progress	3,849,614	2,470,937	6,320,551
Total Capital Assets Not Being Depreciated	6,580,416	2,470,937	9,051,353
Capital Assets, Being Depreciated:			
Buildings	8,603,009		(80,000) 8,523,009
Vehicles and Equipment	1,283,945	376,146	1,660,091
Infrastructure		134,943	134,943
Total Capital Assets Being Depreciated	9,886,954	511,089	(80,000) 10,318,043
Less Accumulated Depreciation For:			
Buildings	(993,402)	(102,356)	(1,095,758)
Vehicles and Equipment	(576,350)	(133,219)	(709,569)
Infrastructure		(25,579)	(25,579)
Total Accumulated Depreciation	(1,569,752)	(261,154)	(1,830,906)
Total Capital Assets, Being Depreciated, Net	8,317,202	249,935	(80,000) 8,487,137
Governmental Activities Capital Assets, Net	<u>\$ 14,897,618</u>	<u>\$ 2,720,872</u>	<u>\$ (80,000) \$ 17,538,490</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 54,875
Protection to Persons and Property	95,264
Recreation and Culture	12,317
Roads, Including Depreciation of General Infrastructure Assets	<u>98,698</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 261,154</u></u>

Note 4. Receivables

A. Economic Development Block Grant Receivable

The county loaned \$1,000,000 to Trus Joist MacMillian on December 30, 1996, for the purpose of reimbursing the cost acquisition and offsite development of a manufacturing facility. Terms of the agreement stipulate a ten-year repayment schedule with zero percent interest. The agreement provides that ten percent of the loan, or \$100,000, shall be forgiven on December 30 of each year as long as the company maintains the appropriate level of job requirements. Trus Joist MacMillian is in substantial compliance with the terms of the agreement and \$100,000 of the loan was forgiven during the fiscal year ended June 30, 2004. As of June 30, 2004, the principal balance due was \$300,000.

B. Multi-County Economic Development Block Grant Receivable.

The county loaned another \$1,000,000 to Trus Joist MacMillian on December 30, 1996, for the purpose of reimbursing the cost acquisition and offsite development of a manufacturing facility. Terms of the agreement stipulate a ten-year repayment schedule with a zero percent interest rate. The agreement provides that ten percent of the loan, or \$100,000, shall be forgiven on December 30 of each year as long as the company maintains the appropriate level of job requirements. Trus Joist MacMillian is in substantial compliance with the terms of the agreement and \$100,000 of the loan was forgiven during the fiscal year ended June 30, 2004. As of June 30, 2004, the principal balance due was \$300,000.

C. Cintas Sales Corporation Receivable

The county loaned \$3,997,000 to Cintas Sales Corporation on March 2, 1994 for the purpose of constructing a manufacturing facility. Terms of the agreement stipulate a 25-year repayment schedule at an eight percent interest rate. The agreement also states that any shortfall in principal payments by Cintas shall be forgiven by the county and that the county will make up such difference from proceeds of coal severance monies. At the end of this agreement, it appears the property and building will transfer to Cintas with the county having to pay back the LGED grant funding from prior years. It appears that Cintas Sales Corporation is in substantial compliance with terms of the agreement. As of June 30, 2004, the principal balance due was \$3,207,985.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Receivables (Continued)

Notes receivable, as of year-end for the government's individual major funds and all other funds, in the aggregate, are as follows:

Due Within One Year	\$ 569,141
Due In More Than One Year	<u>5,567,973</u>
Total	<u>\$ 6,137,114</u>

Note 5. Long-Term Debt

A. Perry County Detention Center Bond

In December 2001, the Perry County Fiscal Court issued \$6,115,000 in General Obligation Public Project Bonds to provide long-term financing for the Perry County Detention Center. The proceeds were used to pay off three bond anticipation notes, which were used for the construction of the Perry County Detention Center. These bonds are scheduled to mature in June 2027 and have a variable interest rate of 2.0 to 5.0%. Semiannual interest payments are required in June and December and the principal amount is due each December. The principal amount of bonds outstanding as of June 30, 2004, was \$5,820,000. Future debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 264,628	\$ 155,000
2006	259,745	155,000
2007	254,217	165,000
2008	248,018	170,000
2009	241,288	175,000
2010-2014	1,087,676	1,000,000
2015-2019	835,260	1,250,000
2020-2024	494,973	1,590,000
2025-2027	88,750	1,160,000
Totals	<u>\$ 3,774,555</u>	<u>\$ 5,820,000</u>

B. Perry County Justice Center Bond (Phase 2)

In April 2002, the Perry County Justice Center Corporation issued bonds in order to construct the Perry County Justice Center. On the same day, the Perry County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a use and sublease agreement for the purpose of obtaining office rental space for the AOC at the Justice Center.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-Term Debt (Continued)

B. Perry County Justice Center Bond (Phase 2) (Continued)

The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as an agent for the Administrative Office of the Courts in order to plan, design, construct, manage and maintain the Justice Building. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals for use of the Justice Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the use and sublease agreement, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the use and sublease agreement. The use and sublease agreement is renewable each year. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The Administrative Office of the Courts with the execution of the use and sublease agreement has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until June 1, 2023, but the use and sublease agreement does not legally obligate the Administrative Office of Courts to do so. The principal amount of bonds outstanding as of June 30, 2004, was \$6,025,000. Future debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 260,797	\$ 220,000
2006	254,450	225,000
2007	246,968	235,000
2008	238,532	240,000
2009	229,218	250,000
2010-2014	976,834	1,405,000
2015-2019	622,327	1,740,000
2020-2021	168,960	1,710,000
Totals	<u>\$ 2,998,086</u>	<u>\$ 6,025,000</u>

C. Caterpillar Backhoe-2001

In September 2001, the county entered into a lease agreement with CAT Financial for the purchase of a Caterpillar Backhoe Loader. Terms of the lease agreement stipulate a 5-year repayment schedule with monthly principal and interest payments. The principal amount of bonds outstanding as of June 30, 2004, was \$27,822. Future debt service requirements are:

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

C. Caterpillar Backhoe-2001 (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 1,153	\$ 12,445
2006	477	13,121
2007	13	2,256
Totals	<u>\$ 1,643</u>	<u>\$ 27,822</u>

D. Caterpillar Backhoe-2003

In April 2003, the county entered into a lease agreement with CAT Financial for the purchase of a Caterpillar Backhoe Loader. Terms of the lease agreement stipulate a 5-year repayment schedule with monthly principal and interest payments. The principal amount of bonds outstanding as of June 30, 2004, was \$46,626. Future debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 1,651	\$ 11,759
2006	1,172	12,238
2007	673	12,737
2008	166	9,892
	<u>\$ 3,662</u>	<u>\$ 46,626</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

E. KADD Lease-Cintas

On May 14, 1998, the county entered into a lease agreement with the Kentucky Area Development District Financing Trust for the purpose of refinancing a bank note. Terms of the lease agreement stipulate a 20-year repayment schedule with semiannual interest payments and annual principal payments. The principal amount of bonds outstanding as of June 30, 2004, was \$1,540,000. Future debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 85,758	\$ 75,000
2006	81,895	80,000
2007	77,775	85,000
2008	73,397	90,000
2009	68,763	95,000
2010-2014	259,938	550,000
2015-2018	<u>85,663</u>	<u>565,000</u>
Total	<u>\$ 733,189</u>	<u>\$ 1,540,000</u>

F. New Holland Tractor & Mower

In May 2002, the county entered into a lease agreement with New Holland Credit for the purchase of a tractor and mower. Terms of the lease agreement stipulate a 4-year repayment schedule with monthly principal payments and one interest payment due at the end of the lease. The principal amount of bonds outstanding as of June 30, 2004, was \$24,756. Future debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$	\$ 14,146
2006	<u>5,200</u>	<u>10,610</u>
	<u>\$ 5,200</u>	<u>\$ 24,756</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

G. KADD Lease – Land Purchase and Demolition

On July 1, 2000, the Perry County Kentucky Justice Center Corporation entered into a capital lease agreement with the Kentucky Area Development District, on behalf of the Administrative Office of Courts, for phase one of the Justice Center Project. These funds were for the purchase of property and the demolition of an existing building for the Justice Center Project.

The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as an agent for the Administrative Office of the Courts in order to plan, design, construct, manage and maintain the Justice Building. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals for use of the Justice Building to be in the full amount of the annual principal and interest requirements of this KADD lease. Under the terms of an additional use and sublease agreement, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the use and sublease agreement. The use and sublease agreement is renewable each year. The Perry County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the KADD lease.

The use allowance payment has commenced prior to the occupancy of the Justice Building by the Administrative Office of the Courts. The Administrative Office of the Courts with the execution of the use and sublease agreement has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 2018, but the use and sublease agreement does not legally obligate the Administrative Office of the Courts to do so.

The principal amount of bonds outstanding as of June 30, 2004, was \$2,110,000. Future debt service requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2005	\$ 116,260	\$ 75,000
2006	112,733	80,000
2007	108,932	80,000
2008	105,130	85,000
2009	101,005	90,000
2010-2014	431,893	525,000
2015-2019	273,717	675,000
2020-2022	65,105	500,000
Totals	<u>\$ 1,314,775</u>	<u>\$ 2,110,000</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 6,380,000	\$	\$ 560,000	\$ 5,820,000	\$ 155,000
Revenue Bonds	6,240,000		215,000	6,025,000	220,000
Financing Obligations	3,974,405		225,200	3,749,205	188,350
Governmental Activities					
Long-term Liabilities	<u>\$ 16,594,405</u>	<u>\$</u>	<u>\$ 1,000,200</u>	<u>\$15,594,205</u>	<u>\$ 563,350</u>

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Ky 40601-6124, or by telephone at (502) 564-4646.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 7. Deferred Compensation

The Perry County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplementary retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority, 105 Sea Hero Road, Suite #1, Frankfort, KY 40601-8862.

Note 8. Insurance

For the fiscal year ended June 30, 2004, Perry County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The beginning net assets balance for governmental activities was \$2,056,153 and the beginning fund balance was \$3,752,940. The effect of this change on the beginning net assets of the governmental activities is an increase of \$1,536,160 due to capital assets previously not reported and the effect of long-term debt.

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,308,000	\$ 1,308,000	\$ 1,395,196	\$ 87,196
Excess Fees	165,405	165,405	75,627	(89,778)
Licenses and Permits	228,000	228,000	257,170	29,170
Intergovernmental Revenue	228,792	282,665	268,776	(13,889)
Charges for Services	6,600	24,691	40,311	15,620
Miscellaneous	40,700	282,055	291,389	9,334
Interest	2,000	2,000	1,440	(560)
Total Revenues	<u>\$ 1,979,497</u>	<u>\$ 2,292,816</u>	<u>\$ 2,329,909</u>	<u>\$ 37,093</u>
EXPENDITURES				
General Government	935,594	1,229,234	1,185,757	43,477
Protection to Persons and Property			10,800	(10,800)
General Health and Sanitation	26,700	18,700	17,391	1,309
Social Services		46,000	45,536	464
Administration	765,632	797,311	780,220	17,091
Total Expenditures	<u>\$ 1,727,926</u>	<u>\$ 2,091,245</u>	<u>\$ 2,039,704</u>	<u>\$ 51,541</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ 251,571</u>	<u>\$ 201,571</u>	<u>\$ 290,205</u>	<u>\$ 88,634</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	100,024	100,024	150,024	50,000
Transfers To Other Funds	(426,595)	(426,595)	(304,450)	122,145
Total Other Financing Sources (Uses)	<u>\$ (326,571)</u>	<u>\$ (326,571)</u>	<u>\$ (154,426)</u>	<u>\$ 172,145</u>
Net Changes in Fund Balance	(75,000)	(125,000)	135,779	260,779
Fund Balance - Beginning	<u>75,000</u>	<u>75,000</u>	<u>53,552</u>	<u>(21,448)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (50,000)</u>	<u>\$ 189,331</u>	<u>\$ 239,331</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004 (Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
In Lieu Tax Payments	\$ 200	\$ 200	\$ 2,172	\$ 1,972
Intergovernmental Revenue	1,022,337	1,652,068	1,646,315	(5,753)
Miscellaneous		24,439	28,513	4,074
Interest	7,000	7,000	1,776	(5,224)
Total Revenues	<u>\$ 1,029,537</u>	<u>\$ 1,683,707</u>	<u>\$ 1,678,776</u>	<u>\$ (4,931)</u>
EXPENDITURES				
Roads	\$ 892,702	\$ 1,374,702	\$ 1,336,913	\$ 37,789
Debt Service	49,893	49,893	48,529	1,364
Administration	86,918	109,088	95,022	14,066
Total Expenditures	<u>\$ 1,029,513</u>	<u>\$ 1,533,683</u>	<u>\$ 1,480,464</u>	<u>\$ 53,219</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ 24</u>	<u>\$ 150,024</u>	<u>\$ 198,312</u>	<u>\$ 48,288</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(100,024)</u>	<u>(100,024)</u>	<u>(100,024)</u>	
Total Other Financing Sources (Uses)	<u>(100,024)</u>	<u>(100,024)</u>	<u>(100,024)</u>	
Net Changes in Fund Balance	(100,000)	50,000	98,288	48,288
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>86,226</u>	<u>(13,774)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 150,000</u>	<u>\$ 184,514</u>	<u>\$ 34,514</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004 (Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 729,046	\$ 729,046	\$ 558,821	\$ (170,225)
Miscellaneous	66,960	66,960	68,606	1,646
Interest	1,500	1,500	418	(1,082)
Total Revenues	<u>\$ 797,506</u>	<u>\$ 797,506</u>	<u>\$ 627,845</u>	<u>\$ (169,661)</u>
EXPENDITURES				
General Government	\$ 886,467	\$ 886,467		\$ 886,467
Protection to Persons and Property		264,824	1,121,049	(856,225)
Administration	147,397	132,573	109,922	22,651
Total Expenditures	<u>\$ 1,033,864</u>	<u>\$ 1,283,864</u>	<u>\$ 1,230,971</u>	<u>\$ 52,893</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (236,358)</u>	<u>\$ (486,358)</u>	<u>\$ (603,126)</u>	<u>\$ (116,768)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	595,186	595,186	991,591	396,405
Transfers To Other Funds	(418,828)	(418,828)	(418,746)	82
Total Other Financing Sources (Uses)	<u>176,358</u>	<u>176,358</u>	<u>572,845</u>	<u>396,487</u>
Net Changes in Fund Balance	(60,000)	(310,000)	(30,281)	279,719
Fund Balance - Beginning	<u>60,000</u>	<u>60,000</u>	<u>75,602</u>	<u>15,602</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (250,000)</u>	<u>\$ 45,321</u>	<u>\$ 295,321</u>

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004 (Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$ 80,000	\$ 80,000	\$ 62,727	\$ (17,273)
Intergovernmental Revenue	1,522,789	2,019,087	2,178,602	159,515
Miscellaneous		132,186	143,293	11,107
Interest	2,500	2,500	1,117	(1,383)
Total Revenues	1,605,289	2,233,773	2,385,739	151,966
EXPENDITURES				
General Government		13,000	13,000	
Protection to Persons and Property	85,750	149,940	145,231	4,709
General Health and Sanitation	110,500	307,800	295,529	12,271
Social Services	22,350	40,014	30,186	9,828
Recreation and Culture	108,000	118,000	94,139	23,861
Roads	850,000	657,989	601,104	56,885
Debt Service	13,410	73,410	67,957	5,453
Capital Projects	18,302	18,302	18,101	201
Administration	328,769	637,110	286,840	350,270
Total Expenditures	\$ 1,537,081	\$ 2,015,565	\$ 1,552,087	\$ 463,478
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ 68,208	\$ 218,208	\$ 833,652	\$ 615,444
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			50,000	50,000
Transfers To Other Funds	(168,591)	(168,591)	(811,591)	(643,000)
Total Other Financing Sources (Uses)	\$ (168,591)	\$ (168,591)	\$ (761,591)	\$ (593,000)
Net Changes in Fund Balances	(100,383)	49,617	72,061	22,444
Fund Balances - Beginning	100,383	100,383	88,639	(11,744)
Fund Balances - Ending	\$ 0	\$ 150,000	\$ 160,700	\$ 10,700

PERRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004 (Continued)

COAL SEVERENCE SPECIAL PROJECT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$ 6,469,272	\$ 6,469,272	\$ 2,283,900	\$ (4,185,372)
Interest			1,388	1,388
Total Revenues	<u>\$ 6,469,272</u>	<u>\$ 6,469,272</u>	<u>\$ 2,285,288</u>	<u>\$ (4,183,984)</u>
EXPENDITURES				
General Government	\$ 250,000	\$ 250,000	\$ 208,378	\$ 41,622
General Health and Sanitation	5,219,636	5,219,636	1,529,263	3,690,373
Social Services	500,000	500,000		500,000
Recreation and Culture	51,636	78,105		78,105
Debt Service			20,002	(20,002)
Total Expenditures	<u>\$ 6,021,272</u>	<u>\$ 6,047,741</u>	<u>\$ 1,757,643</u>	<u>\$ 4,290,098</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ 448,000</u>	<u>\$ 421,531</u>	<u>\$ 527,645</u>	<u>\$ 106,114</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds				
Transfers To Other Funds	(448,000)	(421,531)	(454,531)	(33,000)
Total Other Financing Sources (Uses)	<u>\$ (448,000)</u>	<u>\$ (421,531)</u>	<u>\$ (454,531)</u>	<u>\$ (33,000)</u>
Net Changes in Fund Balances			73,114	73,114
Fund Balances - Beginning			12,752	12,752
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 85,866</u>	<u>\$ 85,866</u>

PERRY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the General Obligation Bond Fund, the Jail Canteen Fund, the Regional Jail Corporation, and the Justice Center Expansion Corporation.

The State Local Finance Officer does not require the General Obligation Bond Fund, the Regional Jail Corporation, and the Justice Center Expansion Corporation to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

PERRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

PERRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	E-911 Fund	Forestry Fund	KREDA Fund	FEMA Fund	Area Development Fund
ASSETS					
Cash and Cash Equivalents	\$ 22,776	\$ 6,872	\$ 21,826	\$ 1,531	\$ 32
Total Assets	<u>\$ 22,776</u>	<u>\$ 6,872</u>	<u>\$ 21,826</u>	<u>\$ 1,531</u>	<u>\$ 32</u>
FUND BALANCES					
Fund Balances:					
Reserved for Encumbrances	\$ 803				
Unreserved:					
Special Revenue Funds	<u>21,973</u>	<u>\$ 6,872</u>	<u>\$ 21,826</u>	<u>\$ 1,531</u>	<u>\$ 32</u>
Total Fund Balances	<u>\$ 22,776</u>	<u>\$ 6,872</u>	<u>\$ 21,826</u>	<u>\$ 1,531</u>	<u>\$ 32</u>

PERRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Perry County Emergency Planning Committee Fee Account Fund	Buckhorn Water Line Fund	CDBG Fund	Total Non-Major Governmental Funds
\$ 3,384	\$ 1,456	\$ 1	\$ 57,878
<u>\$ 3,384</u>	<u>\$ 1,456</u>	<u>\$ 1</u>	<u>\$ 57,878</u>
			\$ 803
\$ 3,384	\$ 1,456	\$ 1	57,075
<u>\$ 3,384</u>	<u>\$ 1,456</u>	<u>\$ 1</u>	<u>\$ 57,878</u>

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PERRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

PERRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	E-911 Fund	Forestry Fund	KREDA Fund	FEMA Fund
REVENUES				
Taxes	\$ 273,228	\$ 3,547	\$	\$
Licenses and Permits				
Intergovernmental	58,671			
Miscellaneous	173		113,564	
Interest	116	26	328	
Total Revenues	<u>\$ 332,188</u>	<u>\$ 3,573</u>	<u>\$ 113,892</u>	<u>\$ 0</u>
EXPENDITURES				
Protection to Persons and Property	\$ 314,892	\$ 3,524	\$	\$
General Health and Sanitation				
Debt Service			159,363	
Capital Projects				
Administration	35,727			
Total Expenditures	<u>\$ 350,619</u>	<u>\$ 3,524</u>	<u>\$ 159,363</u>	<u>\$ 0</u>
Excess (deficiency) of Revenues Over Expenditures	<u>\$ (18,431)</u>	<u>\$ 49</u>	<u>\$ (45,471)</u>	<u>\$</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	\$ 10,000	\$	\$ 14,450	\$
Transfers To Other Funds				
Total Other Financing Sources (Uses)	<u>\$ 10,000</u>	<u>\$</u>	<u>\$ 14,450</u>	<u>\$</u>
Net Change in Fund Balances	(8,431)	49	(31,021)	
Fund Balances - Beginning	31,207	6,823	52,847	1,531
Fund Balances - Ending	<u>\$ 22,776</u>	<u>\$ 6,872</u>	<u>\$ 21,826</u>	<u>\$ 1,531</u>

PERRY COUNTY**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****Other Supplementary Information****For The Year Ended June 30, 2004****(Continued)**

Area Development Fund	Perry County Emergency Planning Committee Fee Account Fund	Buckhorn Water Line Fund	CDBG Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$ 276,775
	1,433			1,433
12,458			22,500	93,629
				113,737
		6		476
<u>\$ 12,458</u>	<u>\$ 1,433</u>	<u>\$ 6</u>	<u>\$ 22,500</u>	<u>\$ 486,050</u>
\$	\$	\$	\$	\$ 318,416
			22,500	22,500
				159,363
12,458				12,458
				35,727
<u>\$ 12,458</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 22,500</u>	<u>\$ 548,464</u>
\$	\$ 1,433	\$ 6	\$	\$ (62,414)
\$	\$	\$	\$	\$ 24,450
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 24,450</u>
	1,433	6		(37,964)
32	1,951	1,450	1	95,842
<u>\$ 32</u>	<u>\$ 3,384</u>	<u>\$ 1,456</u>	<u>\$ 1</u>	<u>\$ 57,878</u>

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PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplementary Information

For The Year Ended June 30, 2004

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County, Kentucky.
2. Two reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Perry County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Perry County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Perry County reported in Part C of this schedule.
7. The program tested as a major program was: Federal Emergency Management Assistance Grant
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Perry County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

2004-01 All Interfund Transfers Should Be Properly Recorded As Transfers In/Out

Auditors noted four instances in which interfund transfers were coded as reimbursements instead of transfers in and out. All transfers of monies between funds should be properly recorded as transfers in and out so that the proper audit procedures can be applied. We recommend the county ensure that all transfers of monies between funds are properly recorded as such.

Perry County Treasurer Tonya Delph's Response:

I will make sure the transfers balance for the fiscal year end June 30, 2005.

2004-02 The County Should Maintain Timesheets For All Employees

The county does not maintain timesheets for all employees. Since timesheets were not maintained for all employees we were unable to determine if they were eligible to participate in the County Employees Retirement System. KRS. 337.320 requires that every employer to keep record of the hours worked each day and each week for each employee. In addition, employees must work an average of 100 hours per month to be eligible to participate in the County Employees Retirement System. We recommend that timesheets be maintained for all employees.

Perry County Judge/Executive Denny Ray Noble's Response:

The office staff is now maintaining timesheets.

PERRY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplementary Information
Fiscal Year Ended June 30, 2004
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

1. The County Should Prepare An Accurate Encumbrance List.

Cleared.

2. The Jailer Should Prepare Monthly Bank Reconciliation For The Jail Commissary Accounts.

Cleared.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

PERRY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

PERRY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Federal Emergency Management Assistance Grant (CFDA #83.544)	Not Available	\$ 513,759
Passed-Through State Disaster and Emergency Services:		
Homeland Security Grants Program (CFDA #97.004)	Not Available	26,451
<u>U.S Department of Commerce</u>		
Passed-Through National Oceanic Atmospheric Administration:		
Pride Community Grants (CFDA #11.469)	Not Available	153,800
<u>U.S Department of Housing and Urban Development</u>		
Passed-Through Governor's Office For Local Development:		
Community Development Block Grant (CFDA #14.228)	Not Available	<u>22,500</u>
Total Cash Expenditures of Federal Awards		<u>\$ 716,510</u>

PERRY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Perry County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 -CFDA Program Number Change

Disaster and Emergency Assistance Grant - CFDA number was changed from 83.544 to 97.036. Previously this program was administered by the U.S. Federal Emergency Management Agency, but is now administered by the U.S. Department of Homeland Security.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive
Members of the Perry County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County, Kentucky as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 14, 2005. Perry County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principals. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Perry County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted two matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

2004-1 All Interfund Transfers Should Be Properly Recorded As Transfers In/Out

2004-2 The County Should Maintain Timesheets For All Employees

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Perry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

2004-1 All Interfund Transfers Should Be Properly Recorded As Transfers In/Out



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of Perry County Fiscal Court, management and federal awarding agencies, and pass-through entities is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 14, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive
Members of the Perry County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Perry County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Perry County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Perry County's management. Our responsibility is to express an opinion on Perry County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Perry County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Perry County's compliance with those requirements.

In our opinion, Perry County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Perry County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Perry County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 14, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

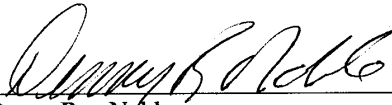
PERRY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

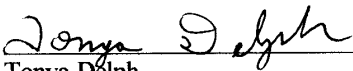
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
PERRY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Perry County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Denny Ray Noble
County Judge/Executive



Tonya Delph
County Treasurer